



Treasury Trends

Bringing currency to the Arizona Taxpayer

David A. Petersen, State Treasurer

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This month's
character trait:

Faith:

*Confidence that actions
rooted in good character
will yield the best
outcome, even when
you cannot see how.*

*Multiple accounts
can be
established for
accounting needs.*

LGIP Performance

The Board of Investment was informed of the performance of the Local Government Investment Pool (LGIP), LGIP-Government, and LGIP-Core-Mix during its regular meeting on July 20, 2005. As the LGIP combined asset balance reached almost \$5 billion at the fiscal year end, yields continue to go up at a steady pace.

Recent Pool performance is posted on the last page including a description of each Pool and a rolling twelve month performance table for the Pools offered by the Arizona State Treasurer's Office. Contacts and other information on the Pools can also be found on this condensed one page summary sheet for your convenience.

Fund Accounting Answers

Ken Fisher, Deputy Treasurer of Investments

The Arizona State Treasurer's Office has structured the LGIP system so that an organization can open multiple accounts for separate fund account needs. An entity can establish multiple accounts within one or all of the LGIP offerings of the Arizona State Treasurer's Office. By doing this, the account holder can easily transfer funds between accounts without actually withdrawing cash or wiring money between banks. This enables you to move funds from one account to another within the same or different LGIP and have same day use of the funds. You will also get separate statements for each account.

Some examples of where this can be useful include:

- Segregate bond proceeds into work breakdown structure (WBS) elements.
- Transfer funds from bond proceeds to operating accounts for capital improvement project (CIP) draws.
- Finance sinking funds for early debt retirement.
- Establish special district, workers' compensation, insurance, and other special funds.
- Report the investment activity of business-type enterprise funds.

The Arizona State Treasurer's Office is committed to bringing each and every LGIP participant the best possible service we can offer. If you would like to find out more, please contact us at your convenience.

*Fed Raises Rates
Eight Times in
Fiscal Year
2004/05.*

Federal Reserve Board Continues Steady Pace

Minh Tang, Assistant Deputy Treasurer of Investments

The Federal Reserve increased its short term rate by another 25 bps at the latest meeting to 3.50%. This marks the tenth straight consecutive increase which started about a year ago. The Fed's reasoning behind the widely expected move stems from the continued growth of the U.S. economy and stable, "contained" inflation. This "Goldilocks" environment has given both equity and fixed income investors plenty to cheer about. There are expectations that the Fed will raise rates another 2-3 times before the end of the year.

On a related front, the yield curve continues to flatten. The spread between 2yr Treasury bonds and 30yr issues has narrowed to about 40 bps. This has given investors even more reasons to stay defensive and buy the short end of the curve. Investors in the long end, however, have benefited from the flattening with yields on the 10yr and 30yr remaining unexpected low. The consensus is that these rates will have to go up, but that's certainly not a guarantee.

Yield Curve Perspective (Source: Bloomberg LP)

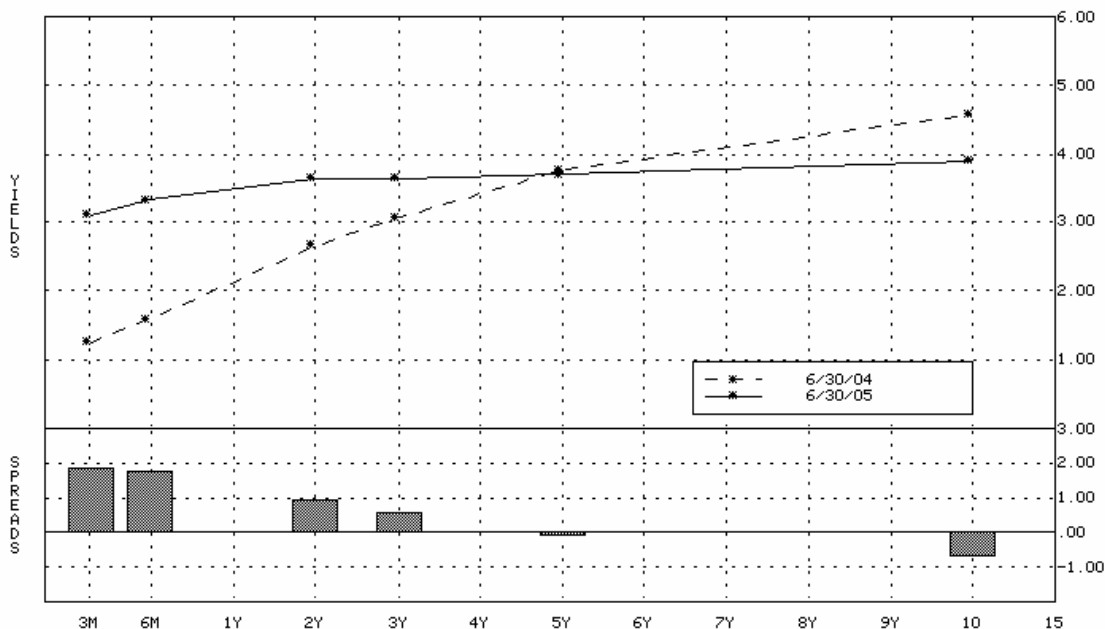
Change in the 3 Month to 10 Year US Treasury Curve for One Year.

YIELD CHANGES FOR

US TREASURY ACTIVES

6/30/05

vs 6/30/04



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We're on the Web!
www.aztreasury.gov

**LGIP: local & state government working together
to safeguard Arizona taxpayers' money.**

LGIP Information

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Arizona State Treasurer's Office Local Government Investment Pools (LGIP) Fact Sheet on the Pools

OVERVIEW

LGIP (\$3.4 Billion as of 06/30/05)

Money market type fund designed to maximize your cash management program's efficiencies by providing a safe and reliable source of liquidity from the fund's portfolio of government and investment-grade domestic securities. Maximum weighted average maturity (WAM) is 240 days.

LGIP-Government (\$1.4 Billion as of 06/30/05)

Similar in style to the LGIP, but invests solely in securities that are backed by the full faith and credit of the US Government. Maximum WAM is 180 days.

LGIP-Core Mix (\$24.3 Million as of 06/30/05)

This fund invests in a longer term horizon than the LGIP cash management fund and adds the potential of total return from feasible price appreciation within the fund's portfolio of government and investment-grade domestic securities. Redemptions and Purchases are limited to the first business day of the month. Duration target is Merrill 1-5 US Domestic Master Index (not to exceed .75 years of index).

LGIP-Core-Government

Similar in style to LGIP-Core Mix, but invests solely in securities that are backed by the full faith and credit of the US Government. Duration target is Merrill 1-5 US Treasuries Index (not to exceed .75 years of index).

RECENT PERFORMANCE

	LGIP		LGIP-Gov.		LGIP-Core Mix		LGIP-Core Gov.	
Month	Yield	WAM	Yield	WAM	Yield	NAV	Yield	NAV
Jun '05	2.90	84	2.72	152	3.55	1.001		
May '05	2.77	96	2.62	121	3.37	1.003		
Apr '05	2.63	99	2.37	104	2.84	1.000		
Mar '05	2.48	93	2.29	140	2.56	1.000		
Feb '05	2.47	100	1.92	125				
Jan '05	2.30	100	1.92	142				
Dec '04	2.21	146	1.80	79				
Nov '04	2.06	152	1.72	89				
Oct '04	1.90	152	1.57	102				
Sep '04	1.81	163	1.45	114				
Aug '04	1.72	167	1.39	117				
Jul '04	1.59	181	1.25	137				

Yields net of fees

Initial Funding Mar-05

Currently Unfunded

ADVANTAGES

- Professionally managed by a team of educated, experienced former public investment officers and private sector portfolio managers and traders.
- Dedicated and separate Compliance, Accounting and Portfolio Management departments ensure our dedication to meeting the LGIPs' objectives.
- Bound by the Arizona Revised Statutes and the oversight of the Arizona Legislature.
- No contracts to negotiate. Accounts are opened with an executed governing body resolution.
- Funds are managed from the viewpoint of public entities for public entities.
- Multiple accounts within the funds are available for your accounting needs.

IMPORTANT INFORMATION

Unless otherwise stated, investors are participating in a commingled investment pool in which they are conveyed a pro rata interest in the total value of all securities in that Pool. Investors share an apportioned amount of the Pool's income and expenses based on the average daily balances of participating accounts using the accrual basis of accounting. The Arizona State Treasurer's Office is not a bank. Investment products offered by it are not backed, insured, or guaranteed by any bank, the FDIC, the State of Arizona, or any other Federal or State Government Agency. As with any investment, past history is not a guarantee of future performance and an investment may lose value.

Please refer to the most recent "Arizona State Treasury Investment Policy for Invested Monies" for further information and important disclosures in determining if an investment in one of the LGIPs is right for your organization. Contact us at 602-604-7800 or visit us at www.aztreasury.gov on the web.